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AZ CORP COMMISSION  
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CHAIRMAN  
2 JIM IRVIN  
COMMISSIONER  
3 WILLIAM A. MUNDELL  
COMMISSIONER  
4

## BEFORE THE ARIZONA CORPORATION COMMISSION

5 IN THE MATTER OF THE JOINT  
6 APPLICATION OF CITIZENS UTILITIES  
COMPANY; AGUA FRIA WATER  
7 DIVISION OF CITIZENS UTILITIES  
COMPANY; MOHAVE WATER DIVISION  
8 OF CITIZENS UTILITIES COMPANY; SUN  
CITY WATER COMPANY; SUN CITY  
9 SEWER COMPANY; SUN CITY WEST  
UTILITIES COMPANY; CITIZENS WATER  
10 SERVICES COMPANY OF ARIZONA;  
CITIZENS WATER RESOURCES  
11 COMPANY OF ARIZONA; HAVASU  
WATER COMPANY AND TUBAC VALLEY  
12 WATER COMPANY, INC., FOR  
APPROVAL OF THE TRANSFER OF THEIR  
13 WATER AND WASTEWATER UTILITY  
ASSETS AND THE TRANSFER OF THEIR  
14 CERTIFICATES OF PUBLIC CONVENIENCE  
AND NECESSITY TO ARIZONA-  
15 AMERICAN WATER COMPANY AND FOR  
CERTAIN RELATED APPROVALS.  
16

DOCKET NOS. W-01032A-00- 0192  
W-01032B-00- 0192  
W-01032C-00- 0192  
S-02276A-00- 0192  
WS-02334A-00-0192  
WS-03454A-00-0192  
WS-03455A-00-0192  
W-02013A-00- 0192  
W-01595A-00- 0192  
W-01303A-00- 0192

ARIZONA-AMERICAN WATER  
COMPANY'S NOTICE OF FILING  
PROPOSED FORM OF OPINION AND  
ORDER

17 Pursuant to A.A.C. R14-3-110(B), Arizona-American Water Company hereby  
18 files its proposed form of Opinion and Order in the above-entitled matter.

19 DATED this 2nd day of February, 2001.

FENNEMORE CRAIG

Arizona Corporation Commission

DOCKETED

FEB 02 2001

DOCKETED BY

By

Norman D. James  
3003 N. Central Avenue, Suite 2600  
Phoenix, AZ 85012  
(602) 916-5346  
Attorneys for Arizona-American Water  
Company

1 An original and 10 copies of the  
2 foregoing was delivered this 29<sup>th</sup> day of February, 2001, to:

3 Docket Control  
4 Arizona Corporation Commission  
5 1200 West Washington  
6 Phoenix, AZ 85007

7 A copy of the foregoing  
8 was delivered this 29<sup>th</sup> day of  
9 February, 2001, to:

10 Marc E. Stern  
11 Administrative Law Judge  
12 Hearing Division  
13 Arizona Corporation Commission  
14 1200 West Washington  
15 Phoenix, AZ 85007

16 Teena Wolfe  
17 Attorney, Legal Division  
18 Arizona Corporation Commission  
19 1200 West Washington  
20 Phoenix, AZ 85007

21 A copy of the foregoing  
22 was mailed this 29<sup>th</sup>  
23 day of February, 2001, to:

24 Daniel W. Pozefsky  
25 Staff Attorney  
26 Residential Utility Consumer Office  
2828 North Central Avenue  
Suite 1200  
Phoenix, AZ 85004

Walter W. Meek, President  
Arizona Utility Investors Association  
P. O. Box 34805  
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Attorneys for Citizens Communications  
Company, et al.

26 By: Mary Nolas

1                   **BEFORE THE ARIZONA CORPORATION COMMISSION**

2   WILLIAM A. MUNDELL  
3       CHAIRMAN

4   JIM IRVIN  
5       COMMISSIONER

6   MARC SPITZER  
7       COMMISSIONER

8   IN THE MATTER OF THE JOINT  
9   APPLICATION OF CITIZENS UTILITIES  
10   COMPANY; AGUA FRIA WATER DIVISION  
11   OF CITIZENS UTILITIES COMPANY;  
12   MOHAVE WATER DIVISION OF CITIZENS  
13   UTILITIES COMPANY; SUN CITY WATER  
14   COMPANY; SUN CITY SEWER COMPANY;  
15   SUN CITY WEST UTILITIES COMPANY;  
16   CITIZENS WATER SERVICES COMPANY  
17   OF ARIZONA; CITIZENS WATER  
18   RESOURCES COMPANY OF ARIZONA;  
19   HAVASU WATER COMPANY AND TUBAC  
20   VALLEY WATER COMPANY, INC., FOR  
21   APPROVAL OF THE TRANSFER OF THEIR  
22   WATER AND WASTEWATER UTILITY  
23   ASSETS AND THE TRANSFER OF THEIR  
24   CERTIFICATES OF PUBLIC CONVENIENCE  
25   AND NECESSITY TO ARIZONA-  
26   AMERICAN WATER COMPANY AND FOR  
   CERTAIN RELATED APPROVALS.

DOCKET NOS.   W-01032A-00-0192  
                  W-01032B-00-0192  
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                  WS-02334A-00-0192  
                  WS-03454A-00-0192  
                  WS-03455A-00-0192  
                  W-02013A-00-0192  
                  W-01595A-00-0192  
                  W-01303A-00-0192

DECISION NO. \_\_\_\_\_

**OPINION AND ORDER**

DATE OF HEARING:                   September 27, 2000

PLACE OF HEARING:                 Phoenix, Arizona

ADMINISTRATIVE LAW JUDGE:       Karen E. Nally

APPEARANCES:                     Mr. Michael M. Grant, GALLAGHER &  
                                     KENNEDY, and Mr. Craig Marks, Associate  
                                     General Counsel, on behalf of Citizens  
                                     Communications Company;

Mr. Norman D. James, FENNEMORE CRAIG, on  
behalf of Arizona-American Water Company;

Mr. Daniel W. Pozefsky, Staff Attorney, on behalf  
of Residential Utility Consumer Office;

1 Mr. Bill Meek on behalf of the Arizona Utility  
2 Investors Association; and

3 Ms. Teena Wolfe, Staff Attorney, Legal Division,  
4 on behalf of the Utilities Division of the Arizona  
Corporation Commission

5 **BY THE COMMISSION:**

6 On March 24, 2000, Citizens Utilities Company, now known as Citizens  
7 Communications Company, together with its Agua Fria Water Division, Mohave Water  
8 Division, Sun City Water Company, Sun City Sewer Company, Sun City West Utilities  
9 Company, Citizens Water Services Company of Arizona, Citizens Water Resources Company of  
10 Arizona, Havasu Water Company and Tubac Valley Water Company (collectively "Citizens"),  
11 and Arizona-American Water Company ("Arizona-American") filed with the Arizona  
12 Corporation Commission ("Commission") a joint application for approval of the transfer of  
13 Citizens' water and wastewater utility plant and assets in Arizona and the transfer of Citizens'  
14 Certificates of Convenience and Necessity ("Certificates") to Arizona-American.

15 On May 17, 2000, the Residential Utility Consumer Office ("RUCO") filed a motion for  
16 leave to intervene, which was granted on June 1, 2000. The Arizona Utility Investors  
17 Association ("AUIA") filed a motion to intervene on June 1, 2000, which was granted on June  
18 16, 2000.<sup>1</sup>

19 In accordance with the procedural order issued in this matter on May 30, 2000, Citizens  
20 and Arizona-American caused a public notice of the application and hearing to be published in  
21 various newspapers throughout Arizona, as follows:

<u>Newspaper</u>	<u>Publication Dates</u>
The Arizona Republic (statewide)	June 30, 2000

24 \_\_\_\_\_  
25 <sup>1</sup> On April 10, 2000, Mr. Marvin Lustiger filed a request to intervene in the above-captioned matter.  
26 However, by subsequent filing, Mr. Lustiger clarified that he was only interested in electric or telephone  
service in Mohave County, on which basis Mr. Lustiger's request to intervene was deemed to have been  
withdrawn.

1	Mohave Valley Daily News	June 18 and 21, 2000
2	Bullhead City Bee	June 16 and 23, 2000
3	Daily News (Sun City)	June 14 and 21, 2000
4	The Tribune (Scottsdale)	June 19 and 21, 2000
5	Today's News Herald (Lake Havasu City)	June 14 and 20, 2000
6	Green Valley News and Sun (Tubac Valley)	June 16 and 21, 2000

7  
8 In addition to publishing notice of the application, all customers of Citizens were notified of the  
9 application by means of a written bill insert. A formal public comment session concerning the  
10 application was also held on September 14, 2000, in Sun City, which was attended by Chairman  
11 William A. Mundell and Commissioner Jim Irvin.

12 On September 26, 2000, the Utilities Division Staff ("Staff") of the Commission filed a  
13 Settlement Agreement ("Staff's Settlement Agreement") between Staff and Arizona-American,  
14 which is attached hereto as Exhibit A. Following the hearing on this matter, which was held on  
15 September 27, 2000 at the Commission's offices in Phoenix, Citizens and RUCO submitted  
16 written briefs on issue of whether Citizens should be required to pay a portion of the gain  
17 resulting from the sale of the utility plant and assets to Citizens' customers.

## 18 DISCUSSION

### 19 Parties to the Transaction

20 Citizens Communications Company ("CCC"), through its various divisions and  
21 subsidiaries, provides water and wastewater, electric, natural gas and telecommunications  
22 services to approximately 1.8 million customers in 22 states, including Arizona. CCC's current  
23 business strategy is to focus on the provision of telecommunications services and to expand its  
24 telecommunications subsidiaries' operations through the acquisition of wire centers and access  
25 lines from other providers, primarily in rural areas. See, for example, Decision No. 63268  
26

1 (Dec. 15, 2000), which approved the transfer of rural wire centers by Qwest Corporation to  
2 Citizens Utilities Rural Company, Inc.

3 In connection with this business strategy, CCC intends to sell its water and wastewater,  
4 electric, and natural gas services properties and to utilize the proceeds to finance acquisitions and  
5 other business activities in the telecommunications area. CCC has entered into an agreement to  
6 sell its Arizona electric utility systems and assets to Cap Rock Energy Corporation.<sup>2</sup> In April  
7 2000, CCC also announced the sale of its Louisiana natural gas operations for \$375 million.

8 Arizona-American presently provides water service to approximately 4,600 customers in  
9 portions of the Town of Paradise Valley, the City of Scottsdale and certain unincorporated  
10 portions of Maricopa County. Arizona-American holds a Certificate of Convenience and  
11 Necessity granted by the Commission, and is presently classified as a Class B water utility.  
12 Arizona-American is a wholly owned subsidiary of American Water Works Company, Inc.  
13 ("AWW").

14 AWW is the largest privately-owned water utility system in the United States, providing  
15 water, wastewater and other water resource management services to approximately 3 million  
16 customers in 23 states. In contrast to CCC, AWW and its subsidiaries have as their core business  
17 the provision of water and wastewater utility services.

18 AWW entered into an agreement to acquire all of the water and wastewater systems of  
19 CCC and its subsidiaries in October 1999. In addition to Arizona, CCC presently has water and  
20 wastewater systems in the states of Illinois, California, Pennsylvania, Ohio and Indiana.

21 AWW is financially sound. On December 31, 1999, AWW reported consolidated net  
22 plant of \$5.1 billion and operating revenues of \$1.26 billion. Its December 31, 1999, balance  
23 sheet reflected a capital structure of 58.4 percent long-term debt, 2.3 percent preferred stock and  
24

25 <sup>2</sup> An application for approval of the sale and transfer of Citizens' electric utility assets and systems in  
26 Arizona is presently pending in Docket Nos. E-01032A-00-0163; E-01032B-00-0163; E-01032C-00-  
0163; and E-03851A-00-0163.



1 39.3 common equity, which ratios are comparable to the six publicly-traded water utilities  
2 followed by Value Line Investment Survey. AWW's shares of common stock, which are  
3 publicly traded on the New York Stock Exchange, received the highest Safety Rank from Value  
4 Line.

5 In 1999, AWW's subsidiaries invested \$467 million in improving and upgrading their  
6 facilities. For the past several years, similar expenditures have averaged nearly \$400 million per  
7 year. According to AWW witnesses, AWW's acquisition policy is motivated, at least in part, by  
8 anticipated capital expenditures resulting from new regulatory requirements and programs and  
9 the need to replace or upgrade aged infrastructure to maintain high quality service. By acquiring  
10 additional water and wastewater systems, AWW and its subsidiaries hope to obtain economies of  
11 scale and to strengthen their financial capability by expanding their customer base.

12 The Transaction

13 On October 15, 1999, CCC, together with its various operating water division and water  
14 and wastewater subsidiaries in Arizona (collectively, "Citizens"), and Arizona-American and  
15 AWW entered into an agreement under which Arizona-American will acquire the water and  
16 wastewater assets and the Certificates held by Citizens in Arizona ("the Acquired Assets"). The  
17 Acquired Assets include all utility plant, property and interests relating to Citizens' water and  
18 wastewater operations in Arizona, with certain exceptions, including assets commonly used by  
19 Citizens in connection with other utility operations, cash and cash equivalents, and assets related  
20 to benefit plans. Citizens will also retain certain liabilities, including obligations for taxes  
21 payable, obligations relating to employee compensation and benefits, and refunds of certain  
22 advances in aid of construction. Arizona-American will assume and be liable for all contracts  
23 and permits assigned at closing, certain Industrial Development Revenue Bonds ("IDRBs"), and  
24 unperformed obligations.

25 The purchase price that will be paid by Arizona-American is approximately \$231 million,  
26 subject to adjustment at the time of closing. The purchase price will be increased based on utility

1 plant added by Citizens after June 30, 1999, and reduced based on plant retirements occurring  
2 after such date.

3 Arizona-American will finance the purchase of the Acquired Assets by a combination of  
4 debt and equity. AWW recently formed a new subsidiary, American Water Capital Corp.  
5 ("AWCC"), that will provide loans and other financial services to AWW subsidiaries. Initially,  
6 Arizona-American will borrow funds from AWCC on a short-term basis, and receive additional  
7 funds in form of common equity directly from AWW. Within 12 months, the short-term debt  
8 will be converted to long-term debt. Arizona-American's resulting capital structure will contain  
9 55 to 60 percent debt and 45 to 40 percent common equity, including Arizona-American's  
10 existing debt and equity capital and the Citizens' IDRBs that will be assumed.<sup>3</sup>

11 The Position of Staff and the Staff Settlement Agreement

12 Staff generally supported the application, and recommended that the transfer of the  
13 Acquired Assets to Arizona-American be approved, subject to several conditions.

14 First, Staff recommended that the Commission defer any decision on the ratemaking  
15 treatment of an acquisition adjustment, deferred taxes, excess deferred taxes, and investment tax  
16 credits until a future rate proceeding.

17 Second, Staff recommended that the decision to allow recovery of an acquisition  
18 adjustment be based on Arizona-American's ability to demonstrate that clear, quantifiable and  
19 substantial net benefits have been realized by ratepayers, which would not have been realized  
20 had the transaction not occurred.

21 Third, Staff recommended that Arizona-American should be ordered to file a report 13  
22 months after the closing of the transaction comparing the number of complaints received by the  
23 Commission and providing an explanation of any significant changes in the number and  
24

25 <sup>3</sup> Arizona-American has filed an application for authority to issue short-term and long-term debt in  
26 connection with financing the purchase of the Acquired Assets, which is pending in Docket No. W-  
01303A-00-0929.



1 importance of the complaints. Staff would then review this report and, if necessary, provide a  
2 recommendation to the Commission.

3 Fourth, Staff recommended that an imputation of the benefits related to advances in aid  
4 of construction ("AIAC") and contributions in aid of construction ("CIAC") received by  
5 Arizona-American be made in subsequent rate proceedings for each former Citizens' system.  
6 The purpose of the imputation would be to recognize that portions of the Acquired Assets were  
7 financed by AIAC and CIAC which Arizona-American will not be assuming. Staff also  
8 recommended that imputed AIAC be amortized over a period of 10 years, while imputed CIAC  
9 would be amortized below the line in the same manner as would have otherwise occurred.

10 Fifth, Staff recommended that Arizona-American be required to seek Commission  
11 approval of any amendments to, or transfers of agreements relating to the purchase of water,  
12 such as Citizens' Central Arizona Project ("CAP") water subcontracts.

13 Finally, Staff recommended that the Commission order Arizona-American to charge  
14 ratepayers for services based on the rates, charges, and service tariffs in effect at the time of  
15 closing in each Citizens service territory, until such time as Arizona-American files general rate  
16 proceedings for each service territory.

17 In its rebuttal filing, Arizona-American indicated that it would accept all of the conditions  
18 recommended by Staff, including the deferral of a decision concerning the recognition of an  
19 acquisition adjustment and the conditions under which an acquisition adjustment would be  
20 recognized, and would adopt and utilize the rates and charges for service, and all other service  
21 tariffs currently in effect in each of the affected Citizens' service territories. However, Arizona-  
22 American disagreed with imputing Citizens' AIAC and CIAC to Arizona-American.  
23 Subsequently, Staff and Arizona-American entered into the Staff Settlement Agreement, which  
24 resolved all areas of disagreement relating to the terms and conditions under which the Acquired  
25 Assets would be transferred to Arizona-American.

1 Under the Staff Settlement Agreement, Citizens' AIAC and CIAC will be imputed to  
2 Arizona-American for ratemaking purposes (thereby reducing rate base). The amount of the  
3 AIAC and CIAC to be imputed to Arizona-American for ratemaking purposes will be based on  
4 the actual balances shown on Citizens' regulatory books as of the date of the transfer of the  
5 Acquired Assets, adjusted as follows: an amount equal to 5 percent of Citizens' AIAC balance  
6 at the time of the transfer will be reclassified as CIAC and added to the CIAC balance, and the  
7 same amount will be deducted from Citizens' AIAC balance. The adjusted amount of AIAC will  
8 be amortized below the line (i.e., no impact on expenses) over a period of 6.5 years, with the  
9 amortization period beginning on the day on which the transfer takes place. The adjusted  
10 amount of CIAC will be amortized above the line (i.e., as a reduction to depreciation expense  
11 that would otherwise be recoverable in rates) over a period of 10 years, with the amortization  
12 period beginning on the day on which the transfer takes place. The imputation of AIAC and  
13 CIAC to Arizona-American is solely for ratemaking purposes, and not for financial accounting  
14 or any other purpose.

15 In addition to agreeing to the imputation of AIAC and CIAC, Arizona American agreed  
16 that the Commission may adopt the remaining conditions concerning the sale and transfer of the  
17 Acquired Assets recommended by Staff, discussed above. Staff and Arizona-American also  
18 agreed that Arizona-American's request for an accounting order to establish the amortization  
19 method for any acquisition adjustment resulting from the transaction should be deferred until a  
20 future rate case.

21 Based on these agreements by Arizona-American, Staff agreed that the Commission  
22 should authorize and approve the transfer of the Acquired Assets to Arizona-American and  
23 should not impose any additional terms, conditions or requirements on Arizona-American.

24 Staff and Arizona-American indicated at the hearing that they support the Staff  
25 Settlement Agreement, and believe that the terms of the Staff Settlement Agreement are  
26 reasonable and in the public interest. Citizens and AUIA also indicated their acceptance of the

1 Staff Settlement Agreement. However, the remaining party, RUCO, objected to the Staff  
2 Settlement Agreement and to the transaction generally, as discussed below.

3 Position of RUCO

4 RUCO maintained that the transaction as proposed is not in the public interest and should  
5 not be approved. RUCO did not contend that Arizona-American would be unable to provide  
6 adequate and reliable utility service if the transaction is approved, or contend that Arizona-  
7 American lacks the experience and expertise to properly manage and operate the Citizens'  
8 systems if they are acquired. Instead, RUCO's arguments focused primarily on the possible,  
9 future impacts of the transaction on ratepayers. In addition, RUCO argued that the gain resulting  
10 from the sale of the Acquired Assets received by Citizens, i.e., the difference between the net  
11 book value of the Acquired Assets and the purchase price being paid by Arizona-American,  
12 should be divided between Citizens and ratepayers.

13 Analysis of Disposition of Gain Issue

14 RUCO contended that gain sharing with ratepayers in this case is appropriate primarily  
15 for two reasons. First, RUCO maintained that ratepayers have shared in the risk associated with  
16 the operation of the utility assets. According to RUCO, this risk sharing results from the  
17 accounting treatment provided in the Uniform System of Accounts when an asset is retired  
18 prematurely, i.e., before a utility fully recovers its original cost via depreciation. Second, RUCO  
19 stated that prior Commission decisions support gain sharing.

20 In response, Citizens argued that ratepayers have assumed no risk in connection with the  
21 operation of Citizens' water and wastewater utility business. Investors have provided the  
22 utility's capital and bear the financial risks associated with its operations. Therefore, the  
23 investors should be entitled to receive any gain resulting from the transaction. As to prior  
24 Commission decisions, Citizens cited three analogous cases involving, as here, a sale of an entire  
25 line of utility business in which the Commission did not order gain sharing.<sup>4</sup> Citizens also

26 <sup>4</sup> Citizens/Southern Union, Decision No. 57847, December 2, 1991; Contel/Citizens, Decision No. 58819,

1 pointed out a fourth Commission decision in which a utility's natural gas business was sold at a  
2 loss. In that case, the Commission did not order the customers to share in the loss.<sup>5</sup>

3 We do not believe, under the circumstances of this case, gain sharing is appropriate.  
4 Here, Citizens is selling its entire business and will have no further water and wastewater  
5 operations in Arizona. As Citizens has pointed out, the Commission has never required gain  
6 sharing under these circumstances. In the Contel of the West matter, in which Citizens was  
7 authorized to acquire all of Contel's telephone properties in Arizona, Staff urged that the gain  
8 resulting from the sale be shared equally with ratepayers. The Commission rejected gain sharing  
9 in that case.

10 We also do not believe that ratepayers bear a substantial risk by virtue of receiving utility  
11 service. The particular accounting treatment for depreciable plant provided under the Uniform  
12 System of Accounts does not shift risk to customers, but rather prescribes particular accounting  
13 adjustments to properly reflect rate base before and after the retirement of a plant item. The  
14 utility's owners, i.e., its shareholders, ultimately bear the risks associated with the utility's  
15 business. While regulation may reduce those risks relative to most non-regulated businesses,  
16 regulation does not shift that risk to ratepayers, who are entitled to receive utility service at rates  
17 set by the Commission.

18 Accordingly, we do not find it appropriate under the circumstances in this case to require  
19 Citizens to pay a portion of the gain it receives from the sale of the Acquired Assets to  
20 ratepayers.

21 Analysis of Remaining RUCO Recommendations

22 The remainder of RUCO's recommendations pertained to the structure of the transaction  
23 and RUCO's concerns that this structure could lead to rate increases in the future. RUCO's  
24 concern in this regard primarily relates to the fact that Arizona-American will not be assuming

25 October 17, 1994; and GTE/Citizens, Decision No. 62648, June 13, 2000.

26 <sup>5</sup> Ajo Improvement Company/Southwest Gas, Decision No. 60167, April 17, 1997.

1 all of Citizens' liabilities associated with AIAC and CIAC, which totaled approximately \$80.8  
2 million and \$4.7 million, respectively, at December 31, 1999. According to RUCO, the structure  
3 of the transaction will result in the elimination of AIAC and CIAC as reductions from rate base,  
4 which will in turn result in an increase in rate base and, eventually, to rate increases.

5 Although we recognize RUCO's concerns, we believe that those concerns are overstated  
6 for several reasons.

7 First, no evidence has been presented suggesting that the transaction has deliberately  
8 been structured in a manner that would eliminate AIAC and CIAC from rate base. Instead, the  
9 evidence indicates that the agreement between Citizens and Arizona-American and AWW was  
10 the product of arms-length negotiations that occurred after Citizens had adopted its current  
11 business strategy of focusing on telecommunications services and divesting itself of its water and  
12 wastewater systems, as well as its electric and natural gas systems throughout the country. This  
13 is not a transaction between affiliated companies. The payment by Arizona-American will  
14 constitute an investment in the Acquired Assets.

15 Moreover, we believe that the Staff Settlement Agreement appropriately deals with this  
16 issue. As discussed, Citizens' AIAC and CIAC will be recognized for ratemaking purposes by  
17 Arizona-American, even though Arizona-American is not assuming those liabilities. By virtue  
18 of this imputation, the impact of the structure of the transaction will be ameliorated. Based on  
19 the evidence and the testimony, the Staff Settlement Agreement's approach is reasonable.

20 RUCO also expressed concern regarding the impact of the transaction on Citizens'  
21 accumulated deferred income taxes ("ADITs"), which totaled approximately \$5.2 million as of  
22 December 31, 1999, and Citizens' investment tax credits ("ITCs"), which totaled approximately  
23 \$2.2 million as of the same date. Under the Staff Settlement Agreement, any decision on the  
24 treatment of ADITs and ITCs will be deferred until Arizona-American seeks new rates in a  
25 future proceeding. Staff's recommendation is appropriate under the circumstances herein.

26

1       Next, RUCO questioned the approach proposed by Arizona-American and Staff, as  
2 adopted in the Staff Settlement Agreement, for dealing with the possible future recognition of an  
3 acquisition adjustment in rates. RUCO agreed with Arizona-American and Staff that it is  
4 appropriate to defer consideration of any acquisition adjustment resulting from the transaction  
5 until a future rate proceeding, in order to afford Arizona-American an opportunity to demonstrate  
6 that the acquisition has provided a net benefit to ratepayers by virtue of improved operating  
7 efficiencies, economies of scale and other synergies. However, RUCO also contended that the  
8 Commission should adopt a set formula, which is set forth in the direct testimony of RUCO  
9 witness Gordon Fox, that would be used in connection with any future determination of the  
10 amount of the acquisition adjustment.

11       We have concerns about the adoption of a set, mechanical formula to quantify a future  
12 acquisition adjustment, as proposed by RUCO, which may omit certain key variables and place  
13 too much (or too little) emphasis on other variables. Under the circumstances herein, Staff's  
14 recommendation concerning the basis on which the Commission will allow the recovery an  
15 acquisition adjustment is reasonable and in the public interest. Arizona-American is cautioned  
16 that the Commission will require Arizona-American to demonstrate that clear, quantifiable and  
17 substantial net benefits to ratepayers have resulted from the acquisition of Citizens' systems  
18 before the Commission will consider recovery of any acquisition adjustment in a future rate  
19 proceeding.

20       RUCO was also critical of Arizona-American's failure to assume all of Citizens' IDRBs.  
21 As stated, Arizona-American will assume certain IDRBs, which total approximately \$10.6  
22 million. The IDRBs that will be assumed constitute low-cost capital. The average cost of the  
23 IDRBs that will be assumed by Arizona-American was 3.55 percent per annum during 1999.  
24 RUCO believes that there may be three additional Citizens' bond issues, representing low-cost  
25 capital, that will not be assumed in connection with the transaction.

26



1 Arizona-American, in its testimony, has acknowledged that other bonds have been issued  
2 by Citizens. The evidence indicates, however, that in contrast to the IDRBs that will be  
3 assumed, the other bonds would require unanimous consent from all bond holders in order to be  
4 assumed, which would be administratively difficult, if not impossible, to accomplish within the  
5 time frame of the transaction. The IDRBs that Arizona-American will assume, in contrast, are  
6 re-marketed on a weekly basis, so that the bonds may be accumulated in the hands of one  
7 investment banker on a particular re-marketing date, who would then be able to approve their  
8 assumption.

9 Given the lack of evidence that it would be feasible for Arizona-American to assume the  
10 remaining bonds, it would not be reasonable to require Arizona-American to assume them or to  
11 otherwise impute these bonds to Arizona-American's capital structure. The remaining bonds  
12 will continue to be an obligation of Citizens and will continue to be included in Citizens' capital  
13 structure in its ongoing telecommunications business.

14 Finally, RUCO recommends that authorization of the transaction be made contingent on  
15 Arizona-American pledging to invest not less than 15 percent of the purchase price for the  
16 Acquired Assets, or approximately \$35 million, in acquisitions and capital improvements of  
17 "resource stressed" water and/or wastewater utilities in Arizona. These acquisitions and capital  
18 improvements would have to be made within 72 months from the date on which the Commission  
19 approves the transaction.

20 The Commission recognizes that there are small water and wastewater utilities in Arizona  
21 that may need technical and financial assistance. Indeed, the Commission has attempted to  
22 provide such assistance to small water and wastewater utilities through workshops and the  
23 development of policies aimed at improving their financial viability. However, it is not  
24 reasonable to compel a private utility to spend in excess of \$35 million to solve these problems,  
25 nor is it clear that the Commission has the authority to do so.

26

1 Arizona-American has indicated its willingness to work with the Commission in  
 2 developing solutions to service problems being experienced by small, troubled utilities. By  
 3 virtue of acquiring Citizens' systems in Arizona, Arizona-American will be in closer proximity  
 4 to a number of these systems, and the Commission would expect Arizona-American, as  
 5 circumstances warrant, to seriously consider acquiring these systems or otherwise provide  
 6 technical or financial assistance. It is not appropriate, however, to impose a mandate on  
 7 Arizona-American to do so.

8 \* \* \* \* \*

9 Having considered the entire record herein and being fully advised in the premises, the  
 10 Commission finds, concludes, and orders that:

#### 11 FINDINGS OF FACT

12 1. On March 24, 2000, Citizens and Arizona-American filed with the Commission a  
 13 joint application for approval of the transfer of Citizens' water and wastewater utility plant and  
 14 assets in Arizona and the transfer of Citizens' Certificates to Arizona-American.

15 2. The following parties were authorized to intervene in this docket: RUCO and  
 16 Arizona Utility Investors Association.

17 3. A public notice of the application and hearing was published in various  
 18 newspapers throughout Arizona within and in the vicinity of Citizens' and Arizona-American's  
 19 service territories.

20 4. Citizens' customers were also notified of the application by means of a written  
 21 bill insert.

22 5. Public comment was taken on September 14, 2000, in Sun City, Arizona.

23 6. On September 27, 2000, a hearing was held on this matter at the Commission's  
 24 offices in Phoenix, Arizona.

25 7. Citizens is engaged in the business of providing water and wastewater utility  
 26 services at various locations within the State of Arizona.

1           8.     Arizona-American, a wholly owned subsidiary of AWW, is currently engaged in  
2 providing water utility services to the public in portions of Maricopa County, Arizona.

3           9.     AWW and its subsidiaries, including Arizona-American, are the largest privately-  
4 owned water utility system in the United States, providing water, wastewater and other water  
5 resource management services to approximately 3 million customers in 23 states.

6           10.    AWW is financially sound, and has the experience, expertise and resources to  
7 assume and perform Citizens' public service obligations.

8           11.    CCC's current business strategy is to focus on the provision of telecommunication  
9 services and to expand its telecommunications subsidiaries' operations through the acquisition of  
10 wire centers and access lines from other providers, primarily in rural areas.

11          12.    In connection with this business strategy, CCC intends to sell its water and  
12 wastewater, electric and natural gas services properties and to utilize the proceeds to finance  
13 acquisitions and other business activities in the telecommunications area.

14          13.    Citizens, Arizona-American and AWW entered into an asset purchase agreement  
15 dated as of October 15, 1999, under which Arizona-American will acquire all of the water and  
16 wastewater assets and the Certificates of Citizens in Arizona.

17          14.    The purchase price that will be paid by Arizona-American is approximately \$231  
18 million, including the assumption of approximately \$10.6 million of certain debt in the form of  
19 outstanding IDRBs, subject to adjustment based on plant additions and retirements occurring  
20 after June 30, 1999.

21          15.    Arizona-American will finance the transaction by a combination of debt and  
22 equity, which will result in Arizona-American having a capital structure containing 55 to 60  
23 percent debt and 45 to 40 percent common equity, which is comparable to the capital structures  
24 of most large, publicly-traded water utilities.

25          16.    Staff has recommended that the transfer of Citizens' water and wastewater utility  
26 plant and assets and Citizens' Certificates be approved, subject to the following conditions:

- (i) Any decision on the ratemaking treatment of an acquisition adjustment, deferred taxes, excess deferred taxes and investment tax credits should be deferred until a future rate proceeding.
- (ii) Recovery of any acquisition adjustment should be based on Arizona-American's ability to demonstrate that clear, quantifiable and substantial net benefits have been realized by ratepayers, which would not have been realized had the transaction not occurred.
- (iii) Arizona-American should be ordered to file a report 13 months after the closing of the transaction comparing the number of complaints received by the Commission and providing an explanation of any significant changes in the number and importance of the complaints.
- (iv) An imputation of the benefits related to advances in aid of construction ("AIAC") and contributions in aid of construction ("CIAC") received by Arizona-American should be made in subsequent rate proceedings for each former Citizens' system.
- (v) Arizona-American should be required to seek Commission approval of any amendments to, or transfers of agreements relating to the purchase of water, such as Citizens' CAP water subcontracts.
- (vi) Arizona-American should be ordered to charge ratepayers for services based on the rates, charges, and service tariffs in effect at the time of closing in each Citizens' service territory, until such time as Arizona-American files general rate proceedings for each service territory.

18. On September 26, 2000, Staff provided notice of filing the Staff Settlement Agreement between Staff and Arizona-American which resolves all issues relating to the terms and conditions under which Citizens' assets and Certificates may be transferred to and operated by Arizona-American.

19. Arizona-American is a fit and proper entity to acquire Citizens' Certificates and to assume Citizens' public service obligations.

20. Based on its review of the evidence and the record herein, the Commission finds that the Staff Settlement Agreement is just and reasonable and in the public interest, and that the transfer of Citizens' water and wastewater utility plant and assets and Citizens' Certificates to Arizona-American should be approved subject to the conditions set forth therein.

### CONCLUSIONS OF LAW

1. Citizens and Arizona-American are public service corporations within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-281, 40-282 and 40-285.

2. The Commission has jurisdiction over Citizens and Arizona-American and over the subject matter of this proceeding.

3. Citizens and Arizona-American provided notice of this proceeding in accordance with law.

4. Based on the evidence presented herein, Citizens and Arizona-American have satisfied the requirements for the transfer of Citizens' water and wastewater utility plant, property and assets, and Citizens' Certificates and, therefore, such transfer should be approved.

## ORDER

IT IS THEREFORE ORDERED that the Joint Application for Authority to Transfer Assets of Citizens Utilities Company, now known as Citizens Communications Company, together with its Agua Fria Water Division, Mohave Water Division, Sun City Water Company, Sun City Sewer Company, Sun City West Utilities Company, Citizens Water Services Company of Arizona, Citizens Water Resources Company of Arizona, Havasu Water Company and Tubac Valley Water Company, and Arizona-American Water Company is hereby approved.

IT IS FURTHER ORDERED that Arizona-American Water Company shall comply with the conditions and requirements set forth in the Staff Settlement Agreement, attached hereto as Exhibit A, and in Finding of Fact 16, hereinabove.

IT IS FURTHER ORDERED that Arizona-American Water Company shall file appropriate documentation in this docket evidencing its acquisition of the utility plant and other assets and its assumption of the obligation to provide water and wastewater utility services on or before thirty (30) days from the date on which the acquisition has been completed.

IT IS FURTHER ORDERED that Arizona-American Water Company shall notify customers of the transfer of the utility plant and other assets and of its assumption of the

1 obligation to provide water and wastewater utility services by means of an insert in its first  
2 regular monthly billing or by other appropriate means immediately following the transfer.

3 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

4 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

5  
6  
7 CHAIRMAN

COMMISSIONER

COMMISSIONER

8 IN WITNESS WHEREOF, I, BRIAN C. McNEIL,  
9 Executive Secretary of the Arizona Corporation  
10 Commission, have hereunto set my hand and caused the  
11 official seal of the Commission to be affixed at the Capitol,  
12 in the City of Phoenix, this \_\_\_\_\_ day of  
13 \_\_\_\_\_, 2001

14 BRIAN C. McNEIL  
15 EXECUTIVE SECRETARY

16 DISSENT \_\_\_\_\_  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26



1 SERVICE LIST FOR:

CITIZENS COMMUNICATIONS COMPANY  
ET AL.

2

3 Michael M. Grant  
4 GALLAGHER & KENNEDY  
5 2575 East Camelback Road  
6 Phoenix, Arizona 85016-9225  
7 Attorneys for Citizens Communications  
8 Company, et al.

6

7 Norman D. James  
8 FENNEMORE CRAIG  
9 3003 N. Central Avenue, Suite 2600  
10 Phoenix, Arizona 85012-2913  
11 Attorneys for Arizona-American Water Company

9

10 Walter W. Meek, President  
11 Arizona Utility Investors Association  
12 P. O. Box 34805  
13 Phoenix, AZ 85067

12 Christopher C. Kempley, Chief Counsel  
13 Legal Division  
14 ARIZONA CORPORATION COMMISSION  
15 1200 West Washington  
16 Phoenix, AZ 85007

15 Deborah Scott, Director  
16 Utilities Division  
17 ARIZONA CORPORATION COMMISSION  
18 1200 West Washington  
19 Phoenix, AZ 85007

18 Daniel W. Pozefsky  
19 Staff Attorney  
20 Residential Utility Consumer Office  
21 Suite 1200  
22 2828 North Central Avenue  
23 Phoenix, AZ 85004

21

22 By \_\_\_\_\_

23 3099-0035/898296

24

25

26

EXHIBIT A

BEFORE THE ARIZONA CORPORATION COMMISSION

RECEIVED

2000 SEP 26 P 4:18

CARL J. KUNASEK  
Chairman

JIM IRVIN  
Commissioner

WILLIAM A. MUNDELL  
Commissioner

AZ CORP COMMISSION  
DOCUMENT CONTROL

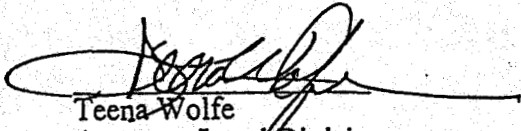
IN THE MATTER OF THE JOINT  
APPLICATION OF CITIZENS UTILITIES  
COMPANY; AGUA FRIA WATER DIVISION  
OF CITIZENS UTILITIES COMPANY;  
MOHAVE WATER DIVISION OF CITIZENS  
UTILITIES COMPANY; SUN CITY WATER  
COMPANY; SUN CITY SEWER COMPANY;  
SUN CITY WEST UTILITIES COMPANY;  
CITIZENS WATER SERVICES COMPANY OF  
ARIZONA; CITIZENS WATER RESOURCES  
COMPANY OF ARIZONA; HAVASU  
WATER COMPANY AND TUBAC VALLEY  
WATER COMPANY, INC., FOR APPROVAL  
OF THE TRANSFER OF THEIR WATER  
AND WASTEWATER UTILITY ASSETS  
AND THE TRANSFER OF THEIR CERTIFI-  
CATES OF PUBLIC CONVENIENCE AND  
NECESSITY TO ARIZONA-AMERICAN  
WATER COMPANY AND FOR CERTAIN  
RELATED APPROVALS.

DOCKET NOS. W-01032A-00-0192  
W-01032B-00-0192  
W-01032C-00-0192  
S-02276A-00-0192  
WS-02334A-00-0192  
WS-03454A-00-0192  
WS-03455A-00-0192  
W-02013A-00-0192  
W-01595A-00-0192  
W-01303A-00-0192

STAFF'S NOTICE OF FILING  
SETTLEMENT AGREEMENT  
BETWEEN ARIZONA CORPORATION  
COMMISSION STAFF AND  
ARIZONA-AMERICAN WATER  
COMPANY

Staff of the Arizona Corporation Commission hereby files the Settlement Agreement between  
the Arizona Corporation Commission Staff and Arizona-American Water Company, in the above-  
referenced dockets.

RESPECTFULLY SUBMITTED this 26<sup>th</sup> day of September, 2000.

  
Teena Wolfe  
Attorney, Legal Division  
Arizona Corporation Commission  
(602) 542-3402

DECISION NO. \_\_\_\_\_

1 Original and fifteen copies of  
2 the foregoing document filed  
3 this 26<sup>th</sup> day of September, 2000 with:

4 Docket Control  
5 Arizona Corporation Commission  
6 1200 West Washington  
7 Phoenix, Arizona 85007

8 Copies of the foregoing will be mailed  
9 the 27<sup>th</sup> day of September, 2000 to:

10 Norman D. James, Esq.  
11 Fennemore Craig  
12 3003 North Central Avenue  
13 Suite 2600  
14 Phoenix, Arizona 85012  
15 Attorneys for Arizona-American  
16 Water Company

17 Craig Marks, Esq.  
18 Citizens Utilities Company  
19 2901 North Central Avenue, Ste 1660  
20 Phoenix, Arizona 85012

21 Scott Wakefield, Esq.  
22 RUCO  
23 2828 N. Central Ave., Suite 1200  
24 Phoenix, Arizona 85004

25 Walter W. Meek, President  
26 Arizona Utility Investors Association  
27 2100 North Central Avenue  
28 Suite 210  
Phoenix, Arizona 85004

By: 

DECISION NO. \_\_\_\_\_

1 CARL J. KUNASEK  
CHAIRMAN  
2 JIM IRVIN  
COMMISSIONER  
3 WILLIAM A. MUNDELL  
COMMISSIONER  
4

BEFORE THE ARIZONA CORPORATION COMMISSION

5 IN THE MATTER OF THE JOINT  
6 APPLICATION OF CITIZENS UTILITIES  
COMPANY; AGUA FRIA WATER  
7 DIVISION OF CITIZENS UTILITIES  
COMPANY; MOHAVE WATER DIVISION  
8 OF CITIZENS UTILITIES COMPANY; SUN  
CITY WATER COMPANY; SUN CITY  
9 SEWER COMPANY; SUN CITY WEST  
UTILITIES COMPANY; CITIZENS WATER  
10 SERVICES COMPANY OF ARIZONA;  
CITIZENS WATER RESOURCES  
11 COMPANY OF ARIZONA; HAVASU  
WATER COMPANY AND TUBAC VALLEY  
12 WATER COMPANY, INC., FOR  
APPROVAL OF THE TRANSFER OF THEIR  
13 WATER AND WASTEWATER UTILITY  
ASSETS AND THE TRANSFER OF THEIR  
14 CERTIFICATES OF PUBLIC CONVENIENCE  
AND NECESSITY TO ARIZONA-  
15 AMERICAN WATER COMPANY AND FOR  
CERTAIN RELATED APPROVALS.  
16

DOCKET NOS. W-01032A-00- 0192  
W-01032B-00- 0192  
W-01032C-00- 0192  
S-02276A-00- 0192  
WS-02334A-00-0192  
WS-03454A-00-0192  
WS-03455A-00-0192  
W-02013A-00- 0192  
W-01595A-00- 0192  
W-01303A-00- 0192

SETTLEMENT AGREEMENT BETWEEN  
ARIZONA CORPORATION  
COMMISSION STAFF AND ARIZONA-  
AMERICAN WATER COMPANY

17 On March 24, 2000, Citizens Utilities Company (now known as Citizens'  
18 Communications Company), its Agua Fria Water Division, its Mohave Water  
19 Division, Sun City Water Company, Sun City Sewer Company, Sun City West  
20 Utilities Company, Citizens Water Services Company of Arizona, Citizens Water  
21 Resources Company of Arizona, Havasu Water Company and Tubac Valley Water  
22 Company (collectively, "Citizens") and Arizona-American Water Company  
23 ("Arizona-American") filed with the Arizona Corporation Commission  
24 ("Commission") a joint application for the approval of the sale and transfer of  
25 Citizens water and wastewater utility plant, property and assets in Arizona,  
26 including transfer of Citizens' certificates of convenience and necessity

1 ("Certificates"), to Arizona-American pursuant to A.R.S. § 40-285.

2 The Commission's Utilities Division Staff ("Staff") has investigated the  
3 application and has recommended that the application be approved by the  
4 Commission, subject, however, to certain conditions and requirements, which are  
5 set forth in the Direct Testimony of Linda A. Jaress, filed in this docket on August  
6 14, 2000, at pages 18-19 ("Staff Recommendations"). Arizona-American has  
7 indicated that it is willing to accept the Staff Recommendations, with the exception  
8 of the recommendation that Citizens' advances in aid of construction ("AIAC") and  
9 contributions in aid of construction ("CIAC") be imputed to Arizona-American.

10 Representatives of Staff and Arizona-American have had discussions  
11 concerning the matters in dispute with respect to the application and have reached  
12 a settlement. The purpose of this Settlement Agreement is to memorialize the  
13 agreement that has been made by and among Staff and Arizona-American, which  
14 resolves all areas of disagreement relating to the terms and conditions under which  
15 Citizens' Arizona water and wastewater assets and Citizens' Certificates may be  
16 transferred to Arizona-American.

17 1. AIAC Imputation; Amortization. As of December 31, 1999, Citizens'  
18 AIAC balance was \$80,818,669. Citizens' AIAC balance as of the date on which  
19 Citizens' water and wastewater assets and Certificates are transferred to Arizona-  
20 American and Arizona-American becomes responsible for the provision of water  
21 and wastewater services will be imputed to Arizona-American. Such imputation  
22 shall be solely for ratemaking purposes. The total amount of AIAC imputed will be  
23 adjusted as more particularly provided below. The adjusted amount of AIAC will be  
24 amortized below the line (i.e., no impact on expenses) over a period of 6.5 years,  
25 with the amortization period beginning on the day on which the transfer takes  
26 place.

1           2.     CIAC Imputation; Amortization. As of December 31, 1999, Citizens'  
2 CIAC balance was \$4,734,430. Citizens' CIAC balance as of the date on which  
3 Citizens' water and wastewater assets and Certificates are transferred to Arizona-  
4 American and Arizona-American become responsible for the provision of water and  
5 wastewater services will also be imputed to Arizona-American. Such imputation  
6 shall be solely for ratemaking purposes. The total amount of CIAC to be imputed  
7 to Arizona-American will also be adjusted as provided below. The adjusted CIAC  
8 balance imputed to Arizona-American will be amortized above the line (i.e., as a  
9 reduction to depreciation expense) over a period of 10 years, with the amortization  
10 period beginning on the day on which the transfer takes place.

11           3.     Adjustment to Recorded AIAC and CIAC Balances. The amounts of  
12 AIAC and CIAC to be imputed to Arizona-American for ratemaking purposes will be  
13 based on the actual balances shown on Citizens' regulatory books as of the date of  
14 the transfer, adjusted as follows: An amount equal to five percent (5%) of  
15 Citizens' AIAC balance at the time of the transfer will be reclassified as CIAC and  
16 added to the CIAC balance, and the same amount will be deducted from Citizens'  
17 AIAC balance in computing the amounts to be imputed to Arizona-American for  
18 ratemaking purposes hereunder.

19           4.     Adoption of Remaining Staff Recommendations. Arizona-American  
20 agrees that the Commission may adopt the remaining Staff Recommendations, as  
21 set forth in the Direct Testimony of Linda A. Jaress.

22           5.     Deferral of Determination of Amortization Method. The parties agree  
23 that Arizona-American's request for an accounting order to establish the  
24 amortization method for any acquisition adjustment resulting from the transaction  
25 should be deferred until a future rate case.

26           6.     Transfer in the Public Interest. Based on the foregoing agreements



1 and understandings, Staff agrees that Arizona-American is a fit and proper entity to  
2 acquire the Certificates and that the Commission should authorize and approve the  
3 transfer of Citizens' Arizona water and wastewater assets to Arizona-American on  
4 the terms set forth herein. No additional terms, conditions or requirements are  
5 necessary or appropriate.

6 7. Support and Defend. This Settlement Agreement will be introduced as  
7 an exhibit during the hearing on the application, presently set for September 27,  
8 2000. Arizona-American and Staff will jointly request that the Settlement  
9 Agreement be received into evidence, and agree to support and defend this  
10 Settlement Agreement and the transfer of Citizens' water and wastewater assets  
11 and the Certificates to Arizona-American on the terms set forth herein as just,  
12 reasonable and appropriate based on the particular circumstances presented in this  
13 application.

14 8. Compromise; No Precedent. This Settlement Agreement represents a  
15 compromise in the positions of the parties hereto. By entering into this Settlement  
16 Agreement, neither Staff nor Arizona-American acknowledges the validity or  
17 invalidity of any particular method, theory or principle of regulation, or agrees that  
18 any method, theory or principle of regulation employed in reaching a settlement is  
19 appropriate for resolving any issue in any other proceeding, including (without  
20 limitation) any issues that are deferred to a subsequent rate proceeding. Except as  
21 specifically agreed upon in this Settlement Agreement, nothing contained herein  
22 will constitute a settled regulatory practice or other precedent.

23 9. Privileged and Confidential Negotiations. All negotiations and other  
24 communications relating to this Settlement Agreement are privileged and  
25 confidential, and no party is bound by any position asserted during the  
26 negotiations, except to the extent expressly stated in this Settlement Agreement.

1 As such, evidence of statements that were made or other conduct occurring during  
2 the course of the negotiation of this Settlement Agreement is not admissible in any  
3 proceeding before the Commission or a court.

4 10. Complete Agreement. This Settlement Agreement represents the  
5 complete agreement of the parties with respect to its subject matter. There are no  
6 understandings or commitments other than those expressly set forth herein.

7 DATED this 26 day of September, 2000.

8 ARIZONA CORPORATION  
9 COMMISSION STAFF

ARIZONA-AMERICAN WATER COMPANY

10 By: 

11 Steven M. Olea  
12 Acting Director, Utilities Division  
13 Arizona Corporation Commission  
14 1200 West Washington Street  
15 Phoenix, Arizona 85007

By: 

Norman D. James  
FENNEMORE CRAIG  
3003 N. Central Avenue, Suite 2600  
Phoenix, Arizona 85012-2913  
Attorneys for Arizona-American  
Water Company

14 An original and 10 copies of the  
15 foregoing was delivered this  
16 \_\_\_ day of September, 2000, to:

17 Docket Control  
18 Arizona Corporation Commission  
19 1200 West Washington  
20 Phoenix, AZ 85007

21 A copy of the foregoing  
22 was delivered this \_\_\_ day of  
23 September, 2000, to:

24 Karen E. Nally  
25 Assistant Chief Administrative  
26 Law Judge  
Hearing Division  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, AZ 85007

1 A copy of the foregoing  
2 was telecopied/delivered and mailed this \_\_\_\_  
3 day of September, 2000, to:

3 Daniel W. Pozefsky  
4 Staff Attorney  
5 Residential Utility Consumer Office  
6 2828 North Central Avenue  
7 Suite 1200  
8 Phoenix, AZ 85004  
9 (602) 285-0350  
10 Walter W. Meek, President  
11 Arizona Utility Investors Association  
12 P. O. Box 34805  
13 Phoenix, AZ 85067  
14 (602) 254-4300

9 Craig A. Marks  
10 Associate General Counsel  
11 Citizens Communications Company  
12 2901 N. Central, Suite 1660  
13 Phoenix, AZ 85012  
14 (602) 265-3415

14 By: \_\_\_\_\_  
15  
16  
17  
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24  
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26